

Issue – Imputed Transfer Payments For Long-Term Firm Bundled Power Sales

Issue Description

How do you handle Imputed Transfer Payments For Long-Term Bundled Power Sales after the Long-Term Contract expires?

Background

When power is sold, and priced at the point of delivery to the recipient system, bundled into that price is, arguably, a contribution to the cost of the seller's transmission system. In fact, FERC requires that when a utility sells power at wholesale from within its system to another system, its transmission function should charge its merchant function for transmission service at its tariff rate to deliver the power from internal sources to the company boundary. This has been viewed (e.g. in the IndeGO model) as a transmission cost carried by the buyer of the power, because it was presumed that the seller recovered the cost in the bundled price. It has been proposed that to mitigate cost shifting this cost responsibility should continue to attach to the buyer of the power by imputing a transfer payment in the company rates reflecting the historical level of contribution.

How should the transfer payments for the imputed component of a bundled long-term power sale be handled?

Alternatives

The two positions on long-term bundled power sales were generated for the WG by Dennis Metcalf (alternative 1) and Marcus Wood (alternative 2). They are:

Alternatives 1 - Impute a transfer payment that represents the transmission contribution related to a long-term bundled power sale when it expires.

Alternatives 2 – No, unless the power seller can demonstrate that without an RTO, upon expiration of the power sale, the purchaser would have needed to purchase replacement transmission services from the original seller of the power

Alternatives 1 - Arguments for Imputing Transfer Payment

RTO West proposes to adopt load based access charges to recover the fixed costs of the transmission system. In addition, the access charges will be Company Rates, designed to avoid cost shifts among the Participating

Transmission Owners. Currently, PTOs in RTO West do a significant amount of business over each other's transmission systems.

Basic principle: Each Company currently uses its own transmission and the transmission systems of other PTOs to serve its loads in a reliable and economic fashion. This includes transmitting remote resources to its loads, making system purchases, making economy purchases, replacing resources out for maintenance other reasons, etc. In many cases a single transaction may serve multiple such purposes. After RTO formation, each PTO will use the combined RTO system for the same purposes. Therefore, in order to avoid cost shifts, all the transmission costs being currently paid to serve each PTO's loads should be determined and used to form the basis of the Company rates. While usage patterns in the future will inevitably change, it is pure speculation whether a particular PTO will make more or less use of other PTOs' systems. Therefore, short of leaving the current pancaked rates in place, there is no good way to reflect such changes in usage patterns in company rate calculations.

For example, transfer charges between companies are needed in order to replace current wheeling contracts. In addition, the current transmission purchaser receives FTRs to equivalent to its wheeling rights.

Issue: How should ramp downs or expiration of long term bundled power sales contracts be treated? Unlike wheeling agreements, bundled power sales contracts between PTOs need not be replaced by transfer payments and FTRs, at least for the period that the quantity of the sale does not change. The contract is not suspended and the seller can functionalize the revenues between power and transmission, using the transmission related revenues to reduce its Company rate.

Proposal: As a bundled power sale between PTOs ramps down or expires, the transmission component of that sale should be replaced with a transfer payment and FTRs, as with a long term wheeling agreement.

As with wheeling agreements, this is the only treatment consistent with load based access charges and the goal of no cost shifts, and it does not require any determination of transmission sufficiency of the purchaser without the bundled sale.

Alternative 2 - Arguments for Not Imputing Transfer Payment

- Q. Upon termination of long-term or short-term power sales, should a transfer charge be paid by the purchaser of power to the seller of power, to recover so-called "imputed" transmission costs allocated by the seller's transmission function to the seller's power function in connection with such bundled sale?

- A. No, unless the power seller can demonstrate that without an RTO, upon expiration of the power sale, the purchaser would have needed to purchase replacement transmission services from the original seller of the power.

The guiding principle in answering this question is that during the Company Rate period, we should establish transfer charges that reflect as closely as feasible the payments that the various participating transmission owners would make to each other if there were no RTO. In other words, we should seek to avoid cost shifts as a result of creating the RTO. Today, various transmission owners sell power from system to system to each other. The power is sold at a delivered price, reflecting the market price at the delivery point. Sometimes the power is sold to displace thermal generation, and then is priced as closely to the running cost of such generation as the seller can price and still make the sale.

Absent an RTO, at the end of the term of such power sale, the purchaser either would or would not purchase more power from the original power seller, depending on the price offered. If the power were purchased from any other entity, the original power seller would not be receiving any transmission payment from the former purchaser. Therefore, the original seller is not entitled to an RTO transfer charge for such transmission upon expiration of its power sale.

The one exception exists if the purchaser needed to use the original seller's transmission system, regardless of whether the original seller or a replacement seller made the power sale. In such case, without an RTO the original seller would continue to receive transmission revenues after the term of its power contract, and thus if the transfer payment is to be comparable to the pre-RTO payments, an imputed transmission charge is appropriate.

One argument heard for imposing a transfer charge for "imputed" transmission upon expiration of bundled power sales is ease of administration: That is, by imputing costs to all bundled sales without analysis, the process of setting transfer charges is made easier. Because of the fact that sales of power to load often goes through many intermediary power marketers, attempting to compute such imputed costs actually would be very difficult. More important, however, no transmission owner could justify potentially paying millions of dollars in unjustified transfer charges upon the expiration of bundled power contracts, merely in order to avoid a couple of hours of analysis.

WG Recommendation - WG is split on this issue

Rationale Behind Recommendation

Several of the PTOs do not have Merchant functions so this component of transfer payments are not supported by them. Including a Transfer Payment does not provide parity between PTO affiliated marketers and those marketers unaffiliated with a PTO.

Linkage to Other Major Issues

TXPR 01 – Constancy of the Transfer Payment

TXPR 02 – Imputed Transfer Payments For Short Term Firm and Non-Firm Bundled Power Sales